

Division of Securities
Utah Department of Commerce
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Salt Lake City, UT 84114-6760
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE OF THE STATE OF UTAH

IN THE MATTER OF:

**AMERICAN-DAIRY.COM, INC.,
ALAPATI PAUL SCHWENKE, and
JAMIS MELWOOD JOHNSON,**

Respondents.

DEFAULT ORDER

**Docket No. SD-06-0010
Docket No. SD-06-0011
Docket No. SD-06-0012**

I. BACKGROUND

A formal adjudicative proceeding was initiated by the Division's Order to Show Cause (OSC) and Notice of Agency Action (Notice) dated February 28, 2006, against American-Dairy.com, Inc., Alapati Paul Schwenke, and Jamis Melwood Johnson (collectively the Respondents). At a hearing on April 13, 2006, the Director, as hearing officer, found American-Dairy.com, Inc. and Alapati Paul Schwenke in default for failing to file a response. Based on that default, the Director enters this order.

II. FINDINGS OF FACT

1. The Division served a copy of the OSC and Notice on Respondents, by certified mail, to the last known addresses of Respondents.
2. American-Dairy.com, Inc. and Alapati Paul Schwenke have not filed a written response or answer with the Division since the OSC was issued and the Notice was served.
3. American-Dairy.com Inc. (American-Dairy) was registered as a Utah corporation on April 12, 2000, and its status was updated to “expired” on October 1, 2001 for failure to file a renewal. American-Dairy’s business address was 220 S. 200 E., Suite 110, Salt Lake City, Utah. American-Dairy listed no principals on the Utah Division of Corporations’ Internet website.
4. Alapati Paul Schwenke (Schwenke), formerly of Wasatch County, is now an inmate at the Utah State Prison in Draper, Utah. At all times relevant to this matter, Schwenke held himself out as the president of American-Dairy.
5. Jamis Melwood Johnson (Johnson) is a resident of Salt Lake County, Utah. At all times relevant to this matter, Johnson held himself out as the CEO of American-Dairy.
6. Utah residents, J.Y. and R.M., operated the Milk-King Dairy (Milk-King) in Delta, Utah. Milk-King was in need of financial assistance and J.Y. was introduced to Schwenke, the president of American-Dairy, as someone who might have financial solutions for the dairy operation.

7. J.Y. initially met Schwenke in July 2000, in Fillmore, Utah, along with Johnson, CEO of American-Dairy, and Victor Lawrence, American-Dairy's attorney. At this meeting, Schwenke told J.Y. he had people lined up to provide financing in the neighborhood of \$10 million for Schwenke's new company, American-Dairy, and that Schwenke could refinance Milk-King's existing loans on more favorable terms and get financing to purchase cattle or equipment.
8. Schwenke also represented to J.Y. that he was a practicing attorney in the State of Utah.
9. Over the following few weeks, J.Y. discussed the opportunity with his father-in-law and co-owner of Milk-King, R.M., and spoke to Schwenke several times over the phone. Schwenke proposed that ownership of Milk-King's real property and equipment, valued at approximately \$200,000, be signed over to American-Dairy, and that American-Dairy assume financial responsibility for Milk-King, including the refinancing of its existing obligations. In exchange for signing over Milk-King's assets, J.Y. and R.M. were to receive stock in American-Dairy.
10. On August 9, 2000, the "Stock Purchase / Trade Agreement" (the Agreement) was finalized and executed at American-Dairy's offices in Salt Lake City, Utah. J.Y. and R.M. were present on behalf of Milk-King, and Schwenke and Johnson were present on behalf of American-Dairy. Schwenke again represented that millions were available to finance Milk-King's operations, that they would favorably refinance Milk-King's

existing debt obligations, and added that shares of American-Dairy stock would go public within 6-24 months and be worth at least \$5.00 per share.

11. The Agreement contained a provision allowing J.Y. and R.M. to sell their American-Dairy stock back to American-Dairy and receive in return all of the property transferred to American-Dairy, subject to amounts of debt no higher than that which existed on the date of the Agreement.
12. On or about August 9, 2000, J.Y. and R.M. transferred ownership of Milk-King's real property and equipment to American-Dairy.
13. In exchange for Milk-King's real property and equipment, J.Y. and R.M. were to receive 150,000 and 50,000 shares of American-Dairy, respectively. J.Y. and R.M. signed proxy agreements in favor of Schwenke, and American-Dairy subsequently provided J.Y. and R.M. with share certificates.
14. On October 4, 2000, approximately two months after the Agreement was signed, Schwenke took out a loan for \$50,000 with PDN Investments, c/o Paul B. Nance, that carried an interest rate of 24%. Schwenke secured the loan with Milk-King's real property. On December 22, 2000, PDN Investments filed a Notice of Default with the Millard County recorder's office, indicating that no payments were made on the loan.
15. Proceeds of the \$50,000 loan obtained by Schwenke were not used to pay Milk-King's mortgage or other expenses, and Central Bank subsequently foreclosed on Milk-King's real property.

16. J.Y. and R.M. received no value from the American-Dairy stock, and Schwenke and Johnson did not favorably refinance Milk-King's debts or provide financing to equip and operate Milk-King.
17. In 1993, Schwenke was disbarred from the practice of law in Utah for misappropriating client funds.
18. In August 1996, the IRS filed a federal tax lien of \$452,555 against Schwenke.
19. In March and September of 1998, and again in September 1999, the IRS filed federal tax liens against Johnson, totaling \$1,669,728.
20. In August 1999, Johnson was disbarred from the practice of law in Utah for misappropriation of client funds.
21. In 1999, the State of Utah filed eight tax liens against Johnson, for a total of \$290,207.
22. In May 2000, a company by the name of MSNTR Investments, Ltd. obtained two default judgments against Schwenke and his former company, Bonneville Investment Group. Together, the default judgments totaled \$618,728.
23. In June 2000, Schwenke's former company, Bonneville Investment Group, filed for bankruptcy.
24. On April 4, 2005, the State of Utah filed a criminal action against Schwenke and Johnson, based on the same allegations contained in this Order to Show Cause, alleging that Schwenke and Johnson committed securities fraud in connection with the offer and sale of a security to J.Y. and R.M. The case is currently pending.

25. In connection with the offer and sale of securities to J.Y. and R.M., American-Dairy and Schwenke, directly and indirectly, made false statements, including, but not limited to, the following:
- a. That Schwenke was a licensed and practicing attorney in the State of Utah, when, in fact, Schwenke had been disbarred in 1993 for misappropriation of client funds;
 - b. That American-Dairy stock would be going public within 6-24 months and would be worth at least \$5.00 per share at that time, when, in fact, Schwenke had no reasonable basis on which to make that representation;
 - c. That American-Dairy would refinance Milk-King's existing debt and provide financing to equip and operate the dairy, when, in fact, Schwenke had no reasonable basis on which to make those representations given his own financial difficulties; and
 - d. That Schwenke had people lined up to provide financing in the neighborhood of \$10 million dollars for American-Dairy, which in fact, Schwenke had no reasonable basis on which to make that representation.
26. In connection with the offer and sale of a security to J.Y. and R.M., American-Dairy and Schwenke, directly and indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make representations made not misleading:

- a. In 1993, Schwenke was disbarred from the practice of law in Utah for misappropriating client funds;
- b. In August 1996, the IRS filed a federal tax lien of \$452,555 against Schwenke;
- c. In March and September of 1998, and again in September 1999, the IRS filed federal tax liens against Johnson, totaling \$1,669,728;
- d. In August 1999, Johnson was disbarred from the practice of law in Utah for misappropriation of client funds;
- e. In 1999, the State of Utah filed eight tax liens against Johnson, for a total of \$290,207;
- f. In May 2000, a company by the name of MSNTR Investments, Ltd. obtained two default judgments against Schwenke and his former company, Bonneville Investment Group. Together, the default judgments totaled \$618,728;
- g. In June 2000, Schwenke's former company, Bonneville Investment Group, filed for bankruptcy;
- h. Johnson suffered losses in Utah AgriSource, a prior business venture involving Schwenke;
- i. The nature of the competition in the dairy industry in Utah;
- j. Information regarding American-Dairy's operating history and financial statements;
- k. Information regarding all principals of American-Dairy;

- l. Information regarding the principals' experience in the Utah dairy industry;
 - m. Commissions or other compensation payable to Schwenke or Johnson from the transaction;
 - n. The current capitalization of American-Dairy;
 - o. The marketability of the investment, i.e. liquidity; and
 - p. The risk involved in the investment.
27. The securities offered and sold by American-Dairy and Schwenke were not registered under the Act and American-Dairy and Schwenke have not made any claim of exemption from the registration requirements.
28. American-Dairy was the issuer of the stock purchased by J.Y. and R.M.
29. The securities were offered and sold by American-Dairy and Schwenke in Utah.
30. Schwenke was acting as an agent of American-Dairy when selling its securities.
31. Schwenke was not licensed as an agent of an issuer or of a broker-dealer.
32. American-Dairy employed Schwenke to sell its securities.
33. J.Y. and R.M. received no value from the American-Dairy stock, and Schwenke did not favorably refinance Milk-King's debts or provide financing to equip and operate Milk-King.

III. CONCLUSIONS OF LAW

34. The service of the OSC and the Notice of Agency Action initiating these proceedings is valid upon American-Dairy and Schwenke.

35. Because American-Dairy and Schwenke did not file an answer or written response, or otherwise appear, they are in default.
36. The American-Dairy stock offered to J.Y. and R.M. by American-Dairy and Schwenke is a security under the Utah Uniform Securities Act (the Act).
37. In connection with the offer and sale of these securities, American-Dairy and Schwenke made untrue statements of material fact to J.Y. and R.M.
38. By this conduct, American-Dairy and Schwenke violated § 61-1-1(2) of the Act.
39. In connection with the offer and sale of American-Dairy's securities, American-Dairy and Schwenke omitted to state to J.Y. and R.M. various material facts which were necessary to make the statements made not misleading.
40. By this conduct, American-Dairy and Schwenke violated § 61-1-1(2) of the Act.
41. By offering and selling unregistered securities in the state of Utah, American-Dairy and Schwenke violated § 61-1-7 of the Act.
42. Schwenke offered and sold securities issued by, or representing an interest in, American-Dairy, as an agent of American-Dairy, without being licensed as required by the Act.
43. By this conduct, Schwenke violated § 61-1-3(1) of the Act.
44. American-Dairy employed Schwenke, an unlicensed agent, to offer and sell its securities in Utah.
45. By this conduct, American-Dairy violated § 61-1-3(2) of the Act.

IV. ORDER

Based on the above, the Director hereby:

1. Declares American-Dairy and Schwenke in default for failing to respond to the OSC and Notice issued February 28, 2006.
2. Enters, as its own findings, the Finding of Fact described in Section II above.
3. Enters, as its own conclusions, the Conclusions of Law describe in Section III above.
4. Finds that American-Dairy.com, Inc. and Alapati Paul Schwenke willfully violated the Utah Uniform Securities Act by:
 - a. Selling unregistered securities in violation of § 61-1-7;
 - b. Selling securities without being licensed and employing an unlicensed agent to sell securities in violation of § 61-1-3;
 - c. Making material misrepresentations in connection with the offer and sale of securities in Utah in violation of § 61-1-1(2); and
 - d. Omitting to disclose material information in connection with the offer and sale of securities in Utah in violation of § 61-1-1(2).
5. Orders American-Dairy.com, Inc. and Alapati Paul Schwenke to permanently CEASE and DESIST from any violations of the Act.
6. Orders American-Dairy.com, Inc. to pay a fine of \$25,000 to the Division.
7. Orders Alapati Paul Schwenke to pay a fine of \$10,000 to the Division.

DATED this 18th day of April, 2006.


WAYNE KLEIN
Director, Division of Securities



Pursuant to § 63-46b-11(3), Respondent may seek to set aside the Default Order entered in this proceeding by filing such a request with the Division consistent with the procedures outlined in the Utah Rules of Civil Procedure.

CERTIFICATE OF MAILING

I hereby certify that on the 24th day of April 2006, I mailed, by certified mail, a true and correct copy of the forgoing **Affidavit of Service and Non-Response and Default**

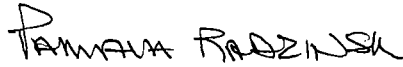
Order to:

American-Dairy.com Inc
220 South 200 East Ste 110
Salt Lake City, UT 84111

CERTIFIED MAIL: 7004 2510 0006 1196 9964

Alapati Paul Schwenke
Inmate #168672
Utah State Prison
PO Box 250
Draper, UT 84020

CERTIFIED MAIL: 7004 2510 0006 1196 9957



Executive Secretary